# THE NEXT DECADE OF ECONOMIC THEORY.

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To forecast from present tendencies and current theories the direction of further development in the abstracter economics is, as I fully realize, an undertaking venturesome and liable to error. Even when years have passed, it is not always possible to characterize a decade or a generation of growth in any science, to say that just this or that tendency was the dominant one during the period in question. There are so many lines of thought, so many practical problems to influence, so many varieties of thinkers, that there has not been a year since Adam Smith published his work in which almost every leading aspect of economics has not been to some degree under discussion. There has been continuity in the growth of economic thought, yet certain periods are marked by the peculiar development of some leading economic doctrine. As the thoughts of men have been ripe for a new study of a special group of industrial pheuomena, and for a new statement of their relations, and as the practical needs of the day have prompted to new attempts at economic theories, that subject or group of subjects has taken the center of the field of attention. On this basis we may distinguish various epochs in economic theory.

## EPOCH OF THE UTILITY VALUE DISCUSSION.

Certainly the years from 1885 on belong to the utility value theorists. The Austrian writers, read at once in the original by English and American students, and quickly introduced to the broader English speaking public through excellent translations, hold the center

of the stage. The work of Jevons, in date of publication so much earlier, must be credited to this later period if the decision is made with reference to the interest attracted and the discussion aroused. American economics may almost be said to have won its spurs in the independent development of some essential parts of the doctrine and in the opening up of new fields of psychological analysis which have yielded some of the most valuable fruits of the discussion. This sudden revival of abstracter or deductive economics, just as such studies seemed to be growing into discredit, is one of the most remarkable chapters in economic theory. Without question the period has been one in which economic analysis has grown keener and economic thought has taken a broader view.

SOME RESULTS OF THE VALUE DISCUSSION.

The President of this Association not long ago published a survey of the last "Decade of Economic Theory" in the United States. Some may dissent from portions of it (for when did one economist ever agree entirely with another?), but as a whole it is, though condensed, so comprehensive and satisfactory that it would be idle to attempt to cover that ground again. Let us then merely put in relief some results of the value discussion, the principal feature of this period, so far as it concerns abstracter economic analysis. Certain of its results which must be recognized are the following:

The old cost-of-production theory of value is discredited as anything more than an immediate and superficially practical explanation of prices.

The utility principle is no longer a supernumerary member, but is the strongest limb of our value theory.

The importance of wants, motives and consumption in the discussion has been greatly and permanently enlarged.

The marginal principle as a device of explanation and as a mode of thought, has become indispensable, and is finding new applications constantly.

A satisfactory statement of the relations of supply and utility in the determination of value, though attempted by many, does not seem to have yet been attained, though the essential nature of this relation is certainly perceived by a large number of students.

That a universal law of value is possible, which will explain in a broad way the value importance assigned to every economic agent, has become almost unconsciously, within the last few years, the firm conviction of students.

The old artificially cumbersome system of separate "laws" and explanations for each of the leading factors of production, has become an anachronism in our text books.

These ideas, so startling a short time ago, have become a part of the accepted stock of economic doctrines to the great body of oncoming students. Those of us who got our first bent in economic theory more than ten years ago, before this notable development, must beware of the personal equation in judging of the progress of such doctrines. The younger generation is adjusting itself to these new modes of thought; to it they are no longer in controversy. The significance of these developments in economic theory we cannot yet fully realize. They are changing our methods of approach to every practical problem in economics. They are having further results in economic theory.

THE CHANGING VIEW OF THE FACTOR CAPITAL.

Let us turn now from these attained results of the value discussion, to some of the yet immature though ripening fruits. A central doctrine like that of value can not undergo such great changes as these without compelling soon a readjustment of all the doctrines with which it is intertwined. One of the most important to note is the change in the whole conception of the factors of production and of the relation of the conventional shares to each other. First to mention is the concept of capital. There has been a marked lull for several years past in the discussion of this branch of economic theory, which might give the impression that the discussion was generally considered closed and that interest in it had ceased. Such is far from the case. The seeds of doubt sown by the able series of articles on the nature of capital that appeared from 1890 to 1896 have been ripening in many minds. The main connection of this with the value discussion is found in the idea of the origin of capital. The conventional capital concept is a cost-of-production concept. The value of capital is traced to former labor which has been needed to produce it. Such a concept involves many internal inconsistencies, manifest on any close study, and many external inconsistencies manifest on its every application to practical affairs. So dominant, however, has been the cost-of-production theory of value in the thoughts of men, that these essential objections have been waved aside as only petty and apparent exceptions which must be found in any application of general formula to actual affairs. Capital has been treated as the product of labor, though there were thousands of things included in capital which, as monopolized fruits of natural resources, had cost no

labor or but an insignificant show of it. We have been told at one moment that rent was not measured by labor or due to it, but was a surplus gained without labor, and in the next we have seen the wealth that was paid over to the landlord as rent used by him as capital and defined as the product of labor. We are told in all the text books that capital is "stored up labor", that "its value is due to labor", that "it is labor in another form", both the ideas and the antique phrases reflecting the labor theory of value. We have continued to use these phrases after we have made laughing stock of that theory, and after we have recognized utility, regardless of the origin of the good, as the measure of value. Writers who use in a masterly way the utility and marginal concepts, nevertheless accept as an ultimate standard of value a rejuvenated Ricardian or Marxian labor unit. Nothing could more emphasize the hold of the old thought modes and the vigorous effort that must be made to be rid of them.

The old capital concept is in unstable equilibrium. The difficulties are too apparent and too many minds are seeking a way to avoid them, for this situation long to continue. Thousands of students are treading the paths of doubt and inquiry. Logical consistency demands that the capital concept be framed without reference to labor as its source or origin, and without limits as to its use. When the utility theory displaced the cost-of-production theory of value, this change of the capital concept became a logical necessity.

With this, of course, must go a change in the whole conception of interest, which likewise is connected in the still current treatment with a factor that has been produced by labor. The multitudinous and naïve in-

consistencies of the older treatment became apparent when viewed in the light of the later value theory.

THE CHANGING CONCEPT OF RENT.

While this change is going on in the capital concept the rent concept is changing also, and from the same logical causes. The old rent concept, long supposed to be the surest attainment of economic theory, depended in a negative way on the labor theory of value. While capital was supposed to be the product of human effort, and interest in an indirect way a payment for it, rent on the contrary was a surplus coming without human effort. It was the one great exception to the cost-of-production theory, an exception, however, which was supposed not to weaken but to strengthen the theory, by giving it a paradoxical, carefully guarded and completed air. A favorite test of economic acumen for generations has been a comprehension of the phrase, "Rent does not enter into the cost-of-production." Though this may be true, (it is the central thesis of a recent and valuable book on economic theory,) many students are coming to believe that it is merely an illogical trick in the explanation of values. The difficulties of the rent theory as confined to natural resources began early to manifest themselves, as a study of the older authors shows. Long before the utility theory brought such doubt into the economic world, the theory of rent, the "*pons asinorum*" of political economy, as Mill called it, was becoming a very difficult bridge for even the most orthodox thinkers to cross, without cutting some very asinary capers, judged by Mill's maxim. A study of our contemporary writers shows the concept in ruins. Marshall, who has connected "quasi rents" with every agent of production, and made land rent only a species

of a large genus, has gone further from the old system of distribution than he appears to have dreamed of in starting. Macfarlane has made an interesting and able attempt to give to the rent concept some excuse for being, but in widening it to the "price determined" factor, he has wrecked it beyond recognition. Hobson has retained the conventional division of the two material factors with no hint of doubt of their consistency, but has extended the concept of rent until it enwraps the economic world. Clark started twelve years ago, it would seem, from the idea of Bastiat, that the rent of land can be reduced to a payment for labor, and applied this in criticism of the single tax doctrine. As he has developed this independently he has met the other converging lines of thought on rent, and in his last work gives the most satisfactory statement yet made of an emancipated rent concept. The situation is not final, and at no time since Adam Smith has greater confusion of terminology existed, or have opinions upon important questions of economic theory been more unsettled. The logical development of the theory of value must bring us soon to more general agreement as to a theory of monopoly, scarcity, or differential gains, which was the starting point of the development of the theory of rent. Whether the rent concept is to be broadened to cover all such cases, or is to be defined as something still different, is one of the important questions of economic theory to be settled in the next decade.

## THE PRACTICAL NEED OF NEW CONCEPTS.

What has been said must not be taken to imply a belief in the growth of theory from internal logical necessity, independent of, and uninfluenced by, the practical needs of the times. Few cherish now such an idea of

theory. The conventional concepts of capital and interest, land and rent, were largely determined, as is now generally recognized, by the conditions of the times in which they were developed. The living questions and practical interests of to-day are having no less influence in determining the lines of economic speculation and the form it shall take. And it is likely that when the future chapter shall be written on the economic theory of this day, it will be said that industrial needs were stimulating to a development of the leading economic concepts in the same direction along which theoretical consistency was urging. This thought may be stated more specifically.

### STAGES OF INDUSTRIAL DEVELOPMENT AND CORRESPONDING CAPITAL CONCEPTS.

A century ago, when economic concepts were taking the form they have in the main retained, even then they were an illogical compromise between two sets of ideas belonging to two different economic epochs. The mediaeval agricultural and natural economy had rent payments and physical measurements as its typical and general form of contract and payment. The new industrial, capitalistic, and money economy was developing rapidly, but had not become dominant as it is to-day. Even such city men as Ricardo were so under the influence of the old ways of thought that the real difference between these two kinds of economic conceptions could not be clearly seen by them. Rent as a return to natural resources seemed a different kind of return, with a different source, from interest as a return to city wealth, so evidently the work of man's hands, whose value was so easily transferable, and whose return always took the money expression. They never doubted that they were

taking the same point of view as they looked at the two factors, two shares, two economic laws, that seemed so essentially different. In fact they were taking two different points of view, one of the 16th and one of the 19th century, and were thus finding contrasts and distinctions which corresponded, not with reality, but with their own shifting modes of thought. The enormous development recently of capitalistic enterprise, the marketing of every form of natural resource by means of shares and bonds, the expression in money form of the value of nearly every kind of wealth and the decline of the agricultural and extractive industries in relative social and economic importance, have made this unconscious confusion of mediaeval and modern viewpoints in economic theory an increasing hinderance to clear and practical thinking. In order to be suited to the discussions of an age that is increasingly industrial, the capital concept must be unified and cleared of its feudal elements.

### THE SCARCITY FACTOR THEN AND NOW.

The old rent concept also is found to be inadequate in this age of rapid growth of industrial corporations which enjoy some public franchise or peculiar economic situation, of large industry exercising a power on prices over areas and periods more or less extended, and of multiplying trusts and monopolies. The theorists of a century ago, looking on value from the cost-of-production standpoint, thought of monopoly as a rare thing, due generally to political favor, and almost negligible in ordinary economic discussion. The contribution and value of land, the only exception to the law of labor value that was quite obvious to them, was accounted for by "the law of rent". Now when our economic

growth is bringing to our attention every day new instances of the influence of scarcity on value, often by social changes outside the control of the one who gains by them, often by the capitalists own manipulations, it can no longer be ignored that the coat of economic theory is a bad misfit. It is, in Hibernian phrase, too long at one end and too short at the other. The rent theory explains so much that it is not true in one direction, and in the other it does not explain at all. This difficulty worried even Ricardo, it caused Mill a deal of anxiety, and industrial developments have made it greater every year. There is no solution short of a new terminology. The Ricardian law of rent is being relegated by industrial development to the curiosity shop of outgrown economic theories.

### SOME PROPOSITIONS.

These are some of the difficulties. In order that the suggestions as to the kind of work to be done in the next decade may be specific, and may serve as a basis for thought and discussion, some propositions expressed or implied in the foregoing paragraphs may be recapitulated.

1. The concept of capital must be given an importance in economic theory corresponding to the dominant place of capitalistic enterprise in present industrial affairs.

2. The concept must be re-defined so as to correspond more closely with commercial usage and the needs of practical discussion.

3. The conventional division of the factors of production is illogical, and must be abandoned. This involves a re-study of many problems and a re-writing of large portions of economic literature.

4. The old idea of rent as a payment for a gift of nature must be rejected; it is questionable whether the later tendency to extend the term rent to every differential gain will prove to be a fortunate development.

5. The labor theory of value and the notion of labor units as in some way usable for a standard of value, are persistent errors which vititate a large part of current economic discussion, and must be completely thrown aside.

6. The doctrines of rent and interest as currently taught are hopelessly entangled in these old and illogical distinctions. The two forms of return for material goods must be considered as differing in modes of calculation, not as to kinds of agents and as kinds of return.

RESTATEMENT OF THE OBJECTS OF THIS PAPER.

The object of this paper may now be restated as follows:

1. To account rationally for the conviction that has been growing among economists that economic terminology is in an unsatisfactory state.

2. To show the necessity of rewriting the theory of distribution along radically new lines.

3. To reduce the mental friction and waste of social energy that must accompany the acceptance of doctrines, a readjustment of which is shown to be inevitable.

4. To indicate specifically the direction which the new doctrines must take, the points at which energy of thought may most effectively be applied.